

ORIGEN FINANCIAL INC  
Form SC 13G/A  
February 05, 2015

CUSIP NO. 68619E208  
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13G

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 2)\*

ORIGEN FINANCIAL, INC.

(Name of Issuer)

Common Stock, \$.01 par value

(Title of Class of Securities)

68619E208

(CUSIP Number)

December 31, 2014

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(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

Rule 13d 1(b)

Rule 13d 1(c)

Rule 13d 1(d)

\*The remainder of this cover page shall be filled out for a reporting person's initial

filing on this form with respect to the subject class of securities, and for any

subsequent amendment containing information which would alter the disclosures provided in

a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be

"filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or

otherwise subject to the liabilities of that section of the Act but shall be subject to

all other provisions of the Act (however, see the Notes).

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1. NAMES OF REPORTING PERSONS.

Franklin Resources, Inc.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b) X

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER

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(See Item 4)

6. SHARED VOTING POWER

(See Item 4)

7. SOLE DISPOSITIVE POWER

(See Item 4)

8. SHARED DISPOSITIVE POWER

(See Item 4)

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,900,000

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES  
CERTAIN SHARES [ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

7.3%

12. TYPE OF REPORTING PERSON

HC, CO (See Item 4)

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1. NAMES OF REPORTING PERSONS.

Charles B. Johnson

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b) X

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER

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(See Item 4)

6. SHARED VOTING POWER

(See Item 4)

7. SOLE DISPOSITIVE POWER

(See Item 4)

8. SHARED DISPOSITIVE POWER

(See Item 4)

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,900,000

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES  
CERTAIN SHARES [ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

7.3%

12. TYPE OF REPORTING PERSON

HC, IN (See Item 4)

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1. NAMES OF REPORTING PERSONS.

Rupert H. Johnson, Jr.

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b) X

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER

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(See Item 4)

6. SHARED VOTING POWER

(See Item 4)

7. SOLE DISPOSITIVE POWER

(See Item 4)

8. SHARED DISPOSITIVE POWER

(See Item 4)

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,900,000

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES  
CERTAIN SHARES [ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

7.3%

12. TYPE OF REPORTING PERSON

HC, IN (See Item 4)

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1. NAMES OF REPORTING PERSONS.

Franklin Advisory Services, LLC

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a)

(b) X

3. SEC USE ONLY

4. CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:

5. SOLE VOTING POWER

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1,900,000

6. SHARED VOTING POWER

0

7. SOLE DISPOSITIVE POWER

1,900,000

8. SHARED DISPOSITIVE POWER

0

9. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,900,000

10. CHECK IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES  
CERTAIN SHARES [ ]

11. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

7.3%

12. TYPE OF REPORTING PERSON

IA, OO (See Item 4)

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Item 1.

(a) Name of Issuer

ORIGEN FINANCIAL, INC.

(b) Address of Issuer's Principal Executive Offices

27777 Franklin Rd.

Suite 1700

Southfield, MI 48034

Item 2.

(a) Name of Person Filing

(i): Franklin Resources, Inc.

(ii): Charles B. Johnson

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(iii): Rupert H. Johnson, Jr.

(iv): Franklin Advisory Services, LLC

(b) Address of Principal Business Office or, if none, Residence

(i), (ii), and (iii):

One Franklin Parkway

San Mateo, CA 94403 1906

(iv): One Parker Plaza, Ninth Floor

Fort Lee, NJ 07024 2938

(c) Citizenship

(i): Delaware

(ii) and (iii): USA

(iv): Delaware

(d) Title of Class of Securities

Common Stock, \$.01 par value



(e) CUSIP Number

68619E208

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Item 3. If this statement is filed pursuant to §§240.13d 1(b) or 240.13d 2(b) or (c),

check whether the person filing is a:

(a)  Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).

(b)  Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c)  Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C.

78c).

(d)  Investment company registered under section 8 of the Investment Company

Act of 1940 (15 U.S.C 80a 8).

(e)  An investment adviser in accordance with §240.13d 1(b)(1)(ii)(E);

(f)  An employee benefit plan or endowment fund in accordance with

§240.13d 1(b)(1)(ii)(F);

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(g)  A parent holding company or control person in accordance with  
§240.13d 1(b) (1) (ii) (G);

(h)  A savings associations as defined in Section 3(b) of the  
Federal Deposit

Insurance Act (12 U.S.C. 1813);

(i)  A church plan that is excluded from the definition of an  
investment

company under section 3(c) (14) of the Investment Company Act  
of 1940 (15

U.S.C. 80a 3);

(j)  A non U.S. institution in accordance with §240.13d 1(b) (ii) (J);

(k)  Group, in accordance with §240.13d 1(b) (1) (ii) (K).

If filing as a non U.S. institution in accordance with  
§240.13d 1(b) (1) (ii) (J).

please specify the type of institution:

Item 4. Ownership

The securities reported herein are beneficially owned by one or more open  
or

closed end investment companies or other managed accounts that are  
investment

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management clients of investment managers that are direct and indirect subsidiaries

(each, an "Investment Management Subsidiary" and, collectively, the "Investment

Management Subsidiaries") of Franklin Resources Inc. ("FRI"), including the Investment

Management Subsidiaries listed in this Item 4. When an investment management contract

(including a sub advisory agreement) delegates to an Investment Management Subsidiary

investment discretion or voting power over the securities held in the investment

advisory accounts that are subject to that agreement, FRI treats the Investment

Management Subsidiary as having sole investment discretion or voting authority, as the

case may be, unless the agreement specifies otherwise. Accordingly, each Investment

Management Subsidiary reports on Schedule 13G that it has sole investment discretion

and voting authority over the securities covered by any such investment management

agreement, unless otherwise noted in this Item 4. As a result, for purposes of Rule

13d 3 under the Act, the Investment Management Subsidiaries listed in this Item 4 may

be deemed to be the beneficial owners of the securities reported in this Schedule 13G.

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Beneficial ownership by Investment Management Subsidiaries and other FRI affiliates is

being reported in conformity with the guidelines articulated by the SEC staff in

Release No. 34 39538 (January 12, 1998) relating to organizations, such as FRI, where

related entities exercise voting and investment powers over the securities being

reported independently from each other. The voting and investment powers held by

Franklin Mutual Advisers, LLC ("FMA"), an indirect wholly owned Investment Management

Subsidiary, are exercised independently from FRI and from all other Investment

Management Subsidiaries (FRI, its affiliates and the Investment Management

Subsidiaries other than FMA are collectively, "FRI affiliates"). Furthermore, internal

policies and procedures of FMA and FRI establish informational barriers that prevent

the flow between FMA and the FRI affiliates of information that relates to the voting

and investment powers over the securities owned by their respective management

clients. Consequently, FMA and FRI affiliates report the securities over which they

hold investment and voting power separately from each other for purposes of Section 13

of the Act.

Charles B. Johnson and Rupert H. Johnson, Jr. (the "Principal Shareholders") each own

in excess of 10% of the outstanding common stock of FRI and are the principal

stockholders of FRI. FRI and the Principal Shareholders may be deemed to be, for

purposes of Rule 13d 3 under the Act, the beneficial owners of securities held by

persons and entities for whom or for which FRI subsidiaries provide investment

management services. The number of shares that may be deemed to be beneficially owned

and the percentage of the class of which such shares are a part are reported in Items

9 and 11 of the cover pages for FRI and each of the Principal Shareholders. FRI, the

Principal Shareholders and each of the Investment Management Subsidiaries disclaim any

pecuniary interest in any of the such securities. In addition, the filing of this

Schedule 13G on behalf of the Principal Shareholders, FRI and the FRI affiliates, as

applicable, should not be construed as an admission that any of them is, and each of

them disclaims that it is, the beneficial owner, as defined in Rule 13d 3, of any of

the securities reported in this Schedule 13G.

FRI, the Principal Shareholders, and each of the Investment Management Subsidiaries

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believe that they are not a "group" within the meaning of Rule 13d 5 under the Act and

that they are not otherwise required to attribute to each other the beneficial

ownership of the securities held by any of them or by any persons or entities for whom

or for which the Investment Management Subsidiaries provide investment management

services.

(a) Amount beneficially owned:

1,900,000

(b) Percent of class:

7.3%

(c) Number of shares as to which the person has:

(i) Sole power to vote or to direct the vote

Franklin Resources,  
Inc.: 0

Charles B.  
Johnson: 0

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Rupert H. Johnson,

Jr.:

0

Franklin Advisory Services, LLC:

1,900,000

(ii) Shared power to vote or to direct the

vote

0

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(iii) Sole power to dispose or to direct the disposition of

Franklin Resources,  
Inc.: 0

Charles B.  
Johnson: 0

Rupert H. Johnson,  
Jr.: 0

Franklin Advisory Services, LLC:  
1,900,000

(iv) Shared power to dispose or to direct the disposition  
of 0

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the  
date

hereof the reporting person has ceased to be the beneficial owner  
of more

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than five percent of the class of securities, check the following  
[ ] .

Item 6. Ownership of More than Five Percent on Behalf of Another Person

The clients of the Investment Management Subsidiaries, including investment companies registered under the Investment Company Act of 1940 and other managed accounts, have the right to receive or power to direct the receipt of dividends from, and the proceeds from the sale of, the securities reported herein.

Franklin MicroCap Value Fund, a series of Franklin Value Investors ) (0.3)

Accounts payable and accrued liabilities

(13.8) (6.1)

Excess tax benefit from stock based payment arrangements

(1.5) (0.2)

Accrued income taxes

(0.6) 0.8

Movement on plant closure provisions

0.1 (0.4)

Cash contributions to defined benefit pension plans

(2.8) (2.3)

Non-cash expense of defined benefit pension plans

0.9 0.0

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Stock option compensation

0.7 0.8

Movements on unrecognized tax benefits

(0.4) 0.0

Movements on other non-current assets and liabilities

0.9 0.6

Net cash provided by operating activities

17.9 18.0

Cash Flows from Investing Activities

Capital expenditures

(2.2) (1.8)

Internally developed software and other costs

(2.1) (2.5)

Purchase of short-term investments

(1.1) 0.0

Sale of short-term investments

0.9 0.1

Net cash provided by/(used in) investing activities

(4.5) (4.2)

Cash Flows from Financing Activities

Net receipt/(repayment) of revolving credit facility

7.0 1.0

Excess tax benefit from stock based payment arrangements

1.5 0.2

Issue of treasury stock

0.4 0.2

Repurchase of common stock

(1.3) (0.4)

Net cash provided by/(used in) financing activities

7.6 1.0

Effect of foreign currency exchange rate changes on cash

(0.2) 0.2

Net change in cash and cash equivalents

20.8 15.0

Cash and cash equivalents at beginning of period

22.4 76.2

Cash and cash equivalents at end of period

\$43.2 \$91.2

Amortization of deferred finance costs of \$0.1 million (2012 \$0.1 million) are included in depreciation and amortization in the cash flow statement but in interest expense in the income statement.

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****(Unaudited)**

<b>(in millions)</b>	<b>Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Treasury Stock</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Stockholders Equity</b>
Balance at December 31, 2012	\$ 0.3	\$ 292.1	\$ (85.0)	\$ 281.0	\$ (171.4)	\$ 317.0
Net income				18.0		18.0
Changes in cumulative translation adjustment					(3.6)	(3.6)
Changes in unrealized gains/(losses) on derivative instruments, net of tax					(0.1)	(0.1)
Treasury stock re-issued		(2.2)	2.7			0.5
Treasury stock repurchased			(1.3)			(1.3)
Stock option compensation		2.2				2.2
Amortization of prior service credit, net of tax					(0.2)	(0.2)
Amortization of actuarial net losses, net of tax					1.3	1.3
Balance at March 31, 2013	\$ 0.3	\$ 292.1	\$ (83.6)	\$ 299.0	\$ (174.0)	\$ 333.8

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

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**INNOSPEC INC. AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

***NOTE 1 BASIS OF PRESENTATION***

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934. Accordingly, they do not include all the information and notes necessary for a comprehensive presentation of financial position, results of operations and cash flows.

It is our opinion, however, that all adjustments (consisting of normal, recurring adjustments, unless otherwise disclosed) have been made which are necessary for the financial statements to be fairly stated. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K filed on February 13, 2013.

The results for the interim period covered by this report are not necessarily indicative of the results to be expected for the full year.

When we use the terms the Corporation, Company, Registrant, we, us and our, we are referring to Innospec Inc. and its consolidated subsidiaries (Innospec) unless otherwise indicated or the context otherwise requires.

**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 2 SEGMENTAL REPORTING**

Innospec divides its business into three segments for management and reporting purposes: Fuel Specialties, Performance Chemicals and Octane Additives. The Fuel Specialties and Performance Chemicals segments operate in markets where we actively seek growth opportunities although their ultimate customers are different. The Octane Additives segment is generally characterized by volatile and declining demand.

The Company evaluates the performance of its segments based on operating income. The following table analyzes sales and other financial information by the Company's reportable segments:

(in millions)	Three Months Ended March 31	
	2013	2012
<b>Net sales:</b>		
Fuel Specialties	\$ 140.0	\$ 130.7
Performance Chemicals	47.8	46.5
Octane Additives	11.6	23.6
	\$ 199.4	\$ 200.8
<b>Gross profit:</b>		
Fuel Specialties	\$ 47.0	\$ 38.7
Performance Chemicals	10.5	11.1
Octane Additives	6.3	14.2
	\$ 63.8	\$ 64.0
<b>Operating income:</b>		
Fuel Specialties	\$ 24.9	\$ 21.7
Performance Chemicals	5.0	6.0
Octane Additives	4.8	12.4
Pension credit/(charge)	(0.7)	0.1
Corporate costs	(11.5)	(8.6)
Restructuring charge	0.0	(0.1)
Impairment of Octane Additives segment goodwill	(0.3)	(0.3)
<b>Total operating income</b>	<b>\$ 22.2</b>	<b>\$ 31.2</b>

The pension credit/(charge) relates to the United Kingdom defined benefit pension plan which is closed to future service accrual. The charges related to our other much smaller pension arrangements in the U.S. and overseas are included in the segment and income statement captions consistent with the related employees' costs.



**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents a summary of the depreciation and amortization charges incurred by the Company's reportable segments:

(in millions)	Three Months Ended March 31	
	2013	2012
<b>Depreciation:</b>		
Fuel Specialties	\$ 0.6	\$ 0.5
Performance Chemicals	0.9	0.6
Octane Additives	0.2	0.1
Corporate	0.6	0.4
	\$ 2.3	\$ 1.6
<b>Amortization:</b>		
Fuel Specialties	\$ 1.6	\$ 0.5
Performance Chemicals	0.4	0.3
Octane Additives	0.1	0.2
	\$ 2.1	\$ 1.0

**NOTE 3 EARNINGS PER SHARE**

Basic earnings per share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the effect of options that are dilutive and outstanding during the period. Per share amounts are computed as follows:

	Three Months Ended March 31	
	2013	2012
<b>Numerator (in millions):</b>		
Net income available to common stockholders	\$ 18.0	\$ 24.6
<b>Denominator (in thousands):</b>		
Weighted average common shares outstanding	23,404	23,055
Dilutive effect of stock options and awards	611	768
Denominator for diluted earnings per share	24,015	23,823
<b>Net income per share, basic:</b>	\$ 0.77	\$ 1.07
<b>Net income per share, diluted:</b>	\$ 0.75	\$ 1.03

In the three months ended March 31, 2013 and 2012, the average number of anti-dilutive options excluded from the calculation of diluted earnings per share were 10,527 and 1,380, respectively.



**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 4 GOODWILL**

The following table summarizes the goodwill movement year on year:

(in millions)	Three Months Ended March 31	
	2013	2012
At January 1		
Gross cost	\$ 384.2	\$ 375.5
Accumulated impairment losses	(235.2)	(234.0)
Net book amount	149.0	141.5
Exchange effect	(0.1)	0.0
Impairment losses	(0.3)	(0.3)
At March 31		
Gross cost	384.1	375.5
Accumulated impairment losses	(235.5)	(234.3)
Net book amount	\$ 148.6	\$ 141.2

Gross cost for 2013 and 2012 is net of \$298.5 million of historical accumulated amortization.

**Acquisitions**

On December 24, 2012, the Company acquired 100% of the voting equity interests in Strata Control Services, Inc. ( Strata ), a private company based in Crowley, Louisiana. Strata is a leading supplier of mud and fluid loss solutions to oil and gas drilling operations, with annual sales in 2012 of approximately \$20 million. Its products and services prevent the unnecessary loss of valuable materials into the formation matrix thereby lowering the cost of operations. We acquired Strata in order to build out our presence in the growing market that it serves.

**Purchase price and fair values of assets acquired and liabilities assumed**

The following table summarizes the calculation of the total purchase price and the allocation of the purchase price to the assets acquired and liabilities assumed. The purchase price allocation and related valuation process is largely complete. Final determination of the fair values may however result in adjustments to the amounts presented below:

(in millions)	Strata
Other intangible assets	\$ 48.0
Goodwill	8.7
Other net assets	2.7
Purchase price, net of cash acquired	\$ 59.4

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Strata, and the associated goodwill, is included within our Fuel Specialties segment for management and reporting purposes (see Note 5 for further information on the other intangible assets). The purchase price comprised of \$53.1 million paid immediately on December 24, 2012, and \$5.0 million payable in cash in 2015 contingent upon the achievement of certain pre-determined financial targets which we currently expect to be achieved. For accounting purposes only, we are required under GAAP, in accordance with our accounting policy, to discount this acquisition-related contingent consideration to its fair value of \$4.4 million. In addition, if the

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## INNOSPEC INC. AND SUBSIDIARIES

## NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)

pre-determined financial targets are achieved, we will in 2015 transfer 60,368 of Innospec common stock to Strata's previous owner. The fair value of these contingently issuable shares at the acquisition date was \$2.0 million which has been added to additional paid-in capital.

**NOTE 5 OTHER INTANGIBLE ASSETS**

The following table summarizes the other intangible assets movement year on year:

(in millions)	Three Months Ended March 31	
	2013	2012
Gross cost at January 1	\$ 106.2	\$ 51.2
Capitalization of internally developed software and other costs	2.1	2.5
Exchange effect	0.0	0.0
Gross cost at March 31	108.3	53.7
Accumulated amortization at January 1	(37.6)	(33.5)
Amortization expense	(2.1)	(1.0)
Exchange effect	(0.1)	0.0
Accumulated amortization at March 31	(39.8)	(34.5)
Net book amount at March 31	\$ 68.5	\$ 19.2

Strata

On December 24, 2012, the Company acquired 100% of the voting equity interests in Strata. The purchase price allocation and related valuation process is largely complete. Final determination of the fair values is unlikely to result in further adjustments to these estimates. We have allocated \$48.0 million of the purchase price to other intangible assets which we are amortizing on a straight-line basis to the income statement over a weighted average expected life of 13.1 years. These intangible assets comprise the following:

technology (\$18.3 million) being amortized straight-line over 16.5 years. In the first three months of 2013 amortization expense of \$0.3 million was recognized in cost of goods sold (2012 - \$0.0 million).

customer relationships (\$28.2 million) and a non-compete agreement (\$1.5 million) being amortized straight-line over 11.5 years and 2.0 years, respectively. In the first three months of 2013 amortization expenses of \$0.6 million and \$0.2 million were recognized in selling, general and administrative expenses, respectively (2012 - \$0.0 million and \$0.0 million, respectively).

Internally developed software and other costs

We are continuing with the implementation of a new, company-wide, information system platform. At March 31, 2013, we had capitalized \$12.2 million (2012 - \$5.6 million) in relation to this internally developed software. No amortization expense was recognized in the first three months of 2013 (2012 - \$0.0 million).

Others

The remaining intangible assets of \$48.1 million relate to those recognized in the acquisition accounting in respect of technology, customer relationships and patents; and sales and marketing agreements to market and sell tetra ethyl lead ( TEL ). These assets are being amortized straight-line over periods of up to 13 years. In the first

**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

three months of 2013 amortization expenses of \$0.6 million and \$0.4 million were recognized in cost of goods sold and selling, general and administrative expenses, respectively (2012 \$0.6 million and \$0.4 million, respectively).

**NOTE 6 PENSION PLANS**

The Company maintains a defined benefit pension plan (the Plan) covering a number of its current and former employees in the United Kingdom, although it does also have other much smaller pension arrangements in the U.S. and overseas. The Plan is closed to future service accrual but has a large number of deferred and current pensioners.

(in millions)	Three Months Ended March 31	
	2013	2012
<b>Plan net pension credit/(charge):</b>		
Service cost	\$ (0.4)	\$ (0.4)
Interest cost on projected benefit obligation	(7.9)	(8.0)
Expected return on plan assets	9.0	8.5
Amortization of prior service credit	0.3	0.3
Amortization of actuarial net losses	(1.7)	(0.3)
	\$ (0.7)	\$ 0.1

The amortization of prior service credit and actuarial net losses is a reclassification out of accumulated other comprehensive loss into selling, general and administrative expenses.

**NOTE 7 INCOME TAXES**

A roll-forward of unrecognized tax benefits and associated accrued interest and penalties is as follows:

(in millions)	Interest and Penalties	Unrecognized Tax Benefits	Total
Opening balance at January 1, 2013	\$ 0.6	\$ 12.2	\$ 12.8
Additions for tax positions of prior periods	0.1	0.1	0.2
Reductions due to lapsed statutes of limitations	(0.1)	(0.5)	(0.6)
Closing balance at March 31, 2013	0.6	11.8	12.4
Current	(0.1)	(2.3)	(2.4)
Non-current	\$ 0.5	\$ 9.5	\$ 10.0

All of the \$12.4 million of unrecognized tax benefits, and interest and penalties, would impact our effective tax rate if recognized.

We recognize accrued interest and penalties associated with uncertain tax positions as part of income taxes in our consolidated statements of income.

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The Company or one of its subsidiaries files income tax returns with the U.S. federal government, and various state and foreign jurisdictions. As at March 31, 2013, the Company and its U.S. subsidiaries were subject to tax audits in the U.S. and the Company's German and United Kingdom subsidiaries were subject to tax audits in



**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Germany and the United Kingdom, respectively. The Company does not currently anticipate that adjustments, if any, arising out of these tax audits would result in a material change to its financial position as at March 31, 2013.

The Company's subsidiaries in foreign tax jurisdictions are open to examination including France (2009 onwards), Germany (2006 onwards), Switzerland (2011 onwards) and the United Kingdom (2010 onwards).

The Company is in a position to control whether or not to repatriate foreign earnings and we intend to permanently reinvest earnings overseas to fund overseas subsidiaries. No taxes have been provided for the unremitted earnings of our overseas subsidiaries as any tax basis differences relating to investments in these overseas subsidiaries are considered to be permanent in duration. The amount of unremitted earnings at December 31, 2012 and 2011 was approximately \$717 million and \$665 million, respectively. If these earnings are remitted, additional taxes could result after offsetting foreign income taxes paid although the calculation of the additional taxes is not practical at this time.

**NOTE 8 LONG-TERM DEBT**

Long-term debt consists of the following:

(in millions)	March 31, 2013	December 31, 2012
Revolving credit facility	\$ 27.0	\$ 20.0
Promissory note	10.0	10.0
	37.0	30.0
Less current portion	(5.0)	(5.0)
	\$ 32.0	\$ 25.0

**NOTE 9 PLANT CLOSURE PROVISIONS**

The principal site giving rise to environmental remediation liabilities is the manufacturing site at Ellesmere Port in the United Kingdom. There are also environmental remediation liabilities on a much smaller scale in respect of our other manufacturing sites in the U.S. and Europe. The liability for estimated closure costs of Innospec's manufacturing facilities includes costs for decontamination and environmental remediation activities ( remediation ) as demand for TEL diminishes.

Movements in the provisions are summarized as follows:

(in millions)	Severance	2013 Remediation	Total	2012 Total
Total at January 1	\$ 1.1	\$ 29.3	\$ 30.4	\$ 28.6
Charge for the period	0.0	0.6	0.6	0.7
Expenditure	(0.1)	(0.5)	(0.6)	(1.2)
Exchange effect	0.0	0.0	0.0	0.1
Closing balance at March 31	1.0	29.4	30.4	28.2
Due within one year	0.0	(4.2)	(4.2)	(3.3)

Due after one year	\$ 1.0	\$ 25.2	\$ 26.2	\$ 24.9
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**INNOSPEC INC. AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Amounts due within one year refer to provisions where expenditure is expected to arise within one year of the balance sheet date. Severance charges are recognized in the income statement as restructuring costs along with other restructuring costs. Remediation costs are recognized in cost of goods sold.

**Remediation**

The remediation provision represents the Company's liability for environmental liabilities and asset retirement obligations. The accretion expense recognized in the first three months of 2013 was \$0.6 million.

We recognize environmental liabilities when they are probable and costs can be reasonably estimated, and asset retirement obligations when there is a legal obligation and costs can be reasonably estimated. The Company has to anticipate the program of work required and the associated future expected costs, and comply with environmental legislation in the countries in which it operates or has operated in. The Company views the costs of vacating our Ellesmere Port site as contingent upon if and when it vacates the site because there is no present intention to do so. The Company has further determined that, due to the uncertain product life of TEL particularly in the market for aviation gasoline and other products being manufactured on the site, there are uncertainties as to the probability and timing of the expected costs. Such uncertainties have been considered in estimating the provision.

***NOTE 10 FAIR VALUE MEASUREMENTS***

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes a mid-market pricing convention for valuing the majority of its assets and liabilities measured and reported at fair value. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company primarily applies the market approach for recurring fair value measurements and endeavors to utilize the best available information. Accordingly, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observability of those inputs. The Company gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. In the first three months of 2013, the Company evaluated the fair value hierarchy levels assigned to its assets and liabilities, and concluded that there should be no transfers into or out of Levels 1, 2 and 3.

**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents the carrying amount and fair values of the Company's assets and liabilities measured on a recurring basis:

(in millions)	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
<b>Non-derivatives:</b>				
Cash and cash equivalents	\$ 43.2	\$ 43.2	\$ 22.4	\$ 22.4
Short-term investments	5.0	5.0	5.1	5.1
<b>Non-financial assets (Level 3 measurement):</b>				
Goodwill Octane Additives	0.9	0.9	1.3	1.3
<b>Derivatives (Level 1 measurement):</b>				
Other non-current assets:				
Commodity swaps	0.0	0.0	0.1	0.1
Foreign currency forward exchange contracts	0.0	0.0	0.8	0.8
<b>Liabilities</b>				
<b>Non-derivatives:</b>				
Long-term debt (including current portion)	37.0	37.0	30.0	30.0
<b>Non-financial liabilities (Level 3 measurement):</b>				
Stock equivalent units	12.0	12.0	12.6	12.6
Acquisition-related contingent consideration	4.4	4.4	4.3	4.3
<b>Derivatives (Level 1 measurement):</b>				
Other non-current liabilities:				
Foreign currency forward exchange contracts	\$ 1.2	\$ 1.2	\$ 0.0	\$ 0.0

Commodity swaps are used to manage the Company's cash flow exposure to raw material cost volatility. They were designated as cash flow hedges and qualified for hedge accounting as at December 31, 2011. At March 31, 2012, the commodity hedges were determined to be ineffective and consequently a gain of \$0.1 million was recognized in earnings. The commodity hedges will likely remain ineffective for the remainder of their term to June 2013, and accordingly all subsequent changes in their fair value are being recognized in earnings.

Foreign currency forward exchange contracts primarily relate to contracts entered into to hedge future known transactions or hedge balance sheet net cash positions. The movements in the carrying amounts and fair values of these contracts are largely due to changes in exchange rates against the U.S. dollar.

**NOTE 11 DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT**

The Company has limited involvement with derivative instruments and does not trade them. The Company does use derivatives to manage certain interest rate, foreign currency exchange rate and raw material cost exposures.

The Company has hedged the cost of certain raw materials with commodity swaps which are summarized as follows:

(in millions)	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notional quantity 275 tonnes			\$ 0.1	\$ 0.1
Notional quantity 100 tonnes	\$ 0.0	\$ 0.0		



**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We enter into various foreign currency forward exchange contracts to minimize currency exchange rate exposure from expected future cash flows. The contracts have maturity dates of up to four years at the date of inception. These foreign currency forward exchange contracts have not been designated as hedging instruments, and their impact on the income statement for the first three months of 2013 is summarized below:

(in millions)	Location of Gain/(Loss) Recognized in Income	Amount of Gain/(Loss) Recognized in Income
Foreign currency forward exchange contracts	Other income/(expense)	\$ 2.1

The Company sells a range of Fuel Specialties, Performance Chemicals and Octane Additives to major oil refineries and chemical companies throughout the world. Credit limits, ongoing credit evaluation and account monitoring procedures are intended to minimize bad debt risk. Collateral is not generally required.

***NOTE 12 COMMITMENTS AND CONTINGENCIES*****Resolution of certain government investigations and other matters**

As we have previously disclosed, in the first quarter of 2010, the Company reached a \$40.2 million settlement to resolve all matters in respect of investigations by U.S. and United Kingdom government authorities into certain legacy transactions conducted by the Company and its subsidiaries under the United Nations Oil for Food Program, the U.S. Foreign Corrupt Practices Act, the U.S. Cuban Assets Control Regulations and United Kingdom anti-bribery laws. The settlement consists of fines, penalties and disgorgements which are payable over a period of four years commencing 2010. As at March 31, 2013, the expected schedule of payments was as follows:

(in millions)	Government Authorities	Compliance Monitor	Total
Fines, penalties and disgorgements	\$ 40.2	\$ 0.0	\$ 40.2
Fees and associated expenses	0.0	3.9	3.9
Less discounting to fair value	(0.1)	0.0	(0.1)
	40.1	3.9	44.0
Amounts paid	(36.5)	(2.9)	(39.4)
Exchange effect	0.0	0.0	0.0
	3.6	1.0	4.6
Due within one year	(3.6)	(1.0)	(4.6)
	\$ 0.0	\$ 0.0	\$ 0.0

For accounting purposes only we are required under GAAP, in accordance with our accounting policy, to discount elements of the fines, penalties and disgorgements to their fair value.

**Other legal matters**

While we are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including business and commercial litigation, employee and product liability claims, there are no other material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of their property is subject. It is possible, however, that an adverse

resolution of an unexpectedly large number of such individual claims or proceedings could in the aggregate have a material adverse effect on results of operations for a particular year or quarter.

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**INNOSPEC INC. AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Guarantees**

The Company and certain of the Company's consolidated subsidiaries are contingently liable for certain obligations of affiliated companies primarily in the form of guarantees of debt and performance under contracts entered into as a normal business practice. This includes guarantees of non-U.S. excise taxes and customs duties. As at March 31, 2013, such contingent liabilities which are not recognized as liabilities in the consolidated financial statements amounted to \$5.7 million.

Under the terms of the guarantee arrangements, generally the Company would be required to perform should the affiliated company fail to fulfil its obligations under the arrangements. In some cases, the guarantee arrangements have recourse provisions that would enable the Company to recover any payments made under the terms of the guarantees from securities held of the guaranteed parties' assets.

The Company and its affiliates have numerous long-term sales and purchase commitments in their various business activities, which are expected to be fulfilled with no adverse consequences material to the Company.

***NOTE 13 STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION PLANS***

At March 31, 2013, the Company had authorized common stock of 40,000,000 shares (December 31, 2012 40,000,000). Issued shares at March 31, 2013, were 29,554,500 (December 31, 2012 29,554,500) and treasury stock amounted to 6,054,840 shares (December 31, 2012 6,222,076).

The Company grants stock options and stock equivalent units (SEUs) from time to time as a long-term performance incentive. In certain cases the grants are subject to performance conditions such as the Company's stock price. Where performance conditions apply the Monte Carlo simulation model is used to determine the fair values. Otherwise the Black-Scholes model is used to determine the fair values.

**Stock option plans**

The Company has five active stock option plans, two of which provide for the grant of stock options to employees, one provides for the grant of stock options to non-employee directors, and another provides for the grant of stock options to key executives on a matching basis provided they use a proportion of their annual bonus to purchase common stock in the Company on the open market or from the Company. The fifth plan is a savings plan which provides for the grant of stock options to all Company employees provided they commit to make regular savings over a pre-defined period which can then be used to purchase common stock upon vesting of the options. The stock options have vesting periods ranging from 24 months to 6 years and in all cases stock options granted expire within 10 years of the date of grant. All grants are at the sole discretion of the Compensation Committee of the Board of Directors. Grants may be priced at market value or at a premium or discount (including at no cost). The aggregate number of shares of common stock reserved for issuance which can be granted under the plans is 2,640,000.



**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the transactions of the Company's stock option plans for the three months ended March 31, 2013:

	Number of Options	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2012	1,001,241	\$ 6.27	
Granted at discount	48,083	\$ 0.00	\$ 32.14
at market value	21,053	\$ 41.31	\$ 16.09
Exercised	(195,478)	\$ 2.17	
Forfeited	(4,438)	\$ 22.48	
Outstanding at March 31, 2013	870,461	\$ 7.60	

At March 31, 2013, there were 193,668 stock options that were exercisable, of which 100,664 had performance conditions attached.

The Company's policy is to issue shares from treasury stock to holders of stock options who exercise those options, but if sufficient treasury stock is not available, the Company will issue previously unissued shares of stock to holders of stock options who exercise options.

The total compensation cost for the first three months of 2013 was \$0.7 million (2012 \$0.8 million). The total intrinsic value of options exercised in the first three months of 2013 was \$1.9 million (2012 \$0.1 million).

The total compensation cost related to non-vested stock options not yet recognized at March 31, 2013 was \$3.2 million and this cost is expected to be recognized over the weighted-average period of 2.07 years.

**Stock equivalent units**

SEUs have vesting periods ranging from 11 months to 4 years and in all cases SEUs granted expire within 10 years of the date of grant. Grants may be priced at market value or at a premium or discount (including at no cost). There is no limit to the number of SEUs that can be granted. The liability for SEUs is located in accrued liabilities in the consolidated balance sheets until they are cash settled.

The following table summarizes the transactions of the Company's SEUs for the three months ended March 31, 2013:

	Number of SEUs	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2012	623,828	\$ 2.95	
Granted at discount	45,028	\$ 0.00	\$ 32.06
at market value	6,970	\$ 41.31	\$ 16.09
Exercised	(150,171)	\$ 2.90	
Forfeited	(2,361)	\$ 10.38	
Outstanding at March 31, 2013	523,294	\$ 3.18	

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At March 31, 2013, there were 185,451 SEUs that are exercisable, of which 150,308 had performance conditions attached.

**Table of Contents****INNOSPEC INC. AND SUBSIDIARIES****NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The charges for SEUs are spread over the life of the award subject to a revaluation to fair value each quarter. The revaluation may result in a charge or a credit to the income statement in the quarter dependent upon our share price and other performance criteria.

The total compensation cost for the first three months of 2013 was \$3.7 million (2012 \$1.9 million). The total intrinsic value of SEUs exercised in the first three months of 2013 was \$1.2 million (2012 \$0.5 million).

The weighted-average remaining vesting period of non-vested SEUs is 1.44 years.

**NOTE 14 RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE LOSS**

Reclassifications out of accumulated other comprehensive loss for the first three months of 2013 were:

	Amount Reclassified from AOCL	Affected Line Item in the Statement where Net Income is Presented
<b>Details about AOCL Components</b>		
<b>Derivative instruments:</b>		
Realized gain/(loss) on derivative instruments	\$ (0.1)	Cost of goods sold
	(0.1)	Total before tax
	0.0	Income tax expense
	(0.1)	Net of tax
<b>Defined benefit pension plan items:</b>		
Amortization of prior service credit	(0.3)	See <sup>(1)</sup> below
Amortization of actuarial losses	1.7	See <sup>(1)</sup> below
	1.4	Total before tax
	(0.3)	Income tax expense
	1.1	Net of tax
<b>Total reclassifications</b>	<b>\$ 1.0</b>	Net of tax

(1) These items are included in the computation of net periodic pension cost. See Note 6 for additional information. Changes in accumulated other comprehensive loss for the first three months of 2013 were:

Unrealized Gains/ (Losses) on	Defined Benefit Pension Plan	Cumulative Translation Adjustments	Total
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	<b>Derivative Instruments</b>	<b>Items</b>		
Opening balance	\$ 0.1	\$ (136.6)	\$ (34.9)	\$ (171.4)
Other comprehensive income/(loss) before reclassifications	0.0	0.0	(3.6)	(3.6)
Amounts reclassified from AOCL	(0.1)	1.1	0.0	1.0
Net current period other comprehensive income/(loss)	(0.1)	1.1	(3.6)	(2.6)
Closing balance	\$ 0.0	\$ (135.5)	\$ (38.5)	\$ (174.0)

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**INNOSPEC INC. AND SUBSIDIARIES**

**NOTES TO THE UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 15 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In February 2013, the FASB issued ASU 2013-02, *Other Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in ASU 2013-02 require the Company to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income, either on the face of the income statement or in the notes, if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income in the same reporting period. For other amounts not required by GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures which provide additional information about the amounts. The guidance is effective prospectively for reporting periods beginning after December 15, 2012. As this guidance provides only presentation requirements, the adoption of this standard did not impact the Company's results of operations, financial position or cash flows.

In July 2012, the FASB issued ASU 2012-02, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 simplifies how entities test indefinite-lived intangible assets, other than goodwill, for impairment and permits an entity to first assess qualitative factors to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired. The amendments are effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption is permitted). The implementation of the amended accounting guidance has not had a material impact on our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The objective of ASU 2011-11 is to facilitate convergence of GAAP and International Financial Reporting Standards and improve the comparability of statements of financial position. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued ASU 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, to limit the scope of ASU 2011-11 to derivatives, sale and repurchase agreements, and securities borrowing and securities lending arrangements. This guidance is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Entities should provide the disclosures required by these amendments retrospectively for all comparative periods presented. The implementation of the amended accounting guidance has not had a material impact on our consolidated financial statements.

**NOTE 16 RELATED PARTY TRANSACTIONS**

Mr. Robert I. Paller has been a non-executive director of the Company since November 1, 2009. The Company has retained and continues to retain Smith, Gambrell & Russell, LLP ( SGR ), a law firm with which Mr. Paller holds a position. In the first three months of 2013 the Company incurred fees payable to SGR of \$0.1 million (2012 full year \$0.8 million). As at March 31, 2013, the amount due to SGR from the Company was \$0.0 million (December 31, 2012 \$0.0 million).

**Table of Contents****Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended March 31, 2013**

This discussion should be read in conjunction with our unaudited interim consolidated financial statements and the notes thereto.

**CRITICAL ACCOUNTING ESTIMATES**

The policies and estimates that the Company considers the most critical in terms of complexity and subjectivity of assessment are those related to contingencies, environmental liabilities, pensions, deferred tax and uncertain income tax positions, goodwill, and other intangible assets (net of amortization) and property, plant and equipment. These policies have been discussed in the Company's 2012 Annual Report on Form 10-K.

**RESULTS OF OPERATIONS**

The following table provides operating income by reporting segment:

(in millions)	Three Months Ended March 31	
	2013	2012
<b>Net sales:</b>		
Fuel Specialties	\$ 140.0	\$ 130.7
Performance Chemicals	47.8	46.5
Octane Additives	11.6	23.6
	\$ 199.4	\$ 200.8
<b>Gross profit:</b>		
Fuel Specialties	\$ 47.0	\$ 38.7
Performance Chemicals	10.5	11.1
Octane Additives	6.3	14.2
	\$ 63.8	\$ 64.0
<b>Operating income:</b>		
Fuel Specialties	\$ 24.9	\$ 21.7
Performance Chemicals	5.0	6.0
Octane Additives	4.8	12.4
Pension credit/(charge)	(0.7)	0.1
Corporate costs	(11.5)	(8.6)
Restructuring charge	0.0	(0.1)
Impairment of Octane Additives segment goodwill	(0.3)	(0.3)
<b>Total operating income</b>	<b>\$ 22.2</b>	<b>\$ 31.2</b>

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(in millions, except ratios)	Three Months Ended			Change
	2013	2012	March 31	
<b>Net sales:</b>				
Fuel Specialties	\$ 140.0	\$ 130.7	\$ 9.3	+7%
Performance Chemicals	47.8	46.5	1.3	+3%
Octane Additives	11.6	23.6	(12.0)	-51%
	\$ 199.4	\$ 200.8	\$ (1.4)	-1%
<b>Gross profit:</b>				
Fuel Specialties	\$ 47.0	\$ 38.7	\$ 8.3	+21%
Performance Chemicals	10.5	11.1	(0.6)	-5%
Octane Additives	6.3	14.2	(7.9)	-56%
	\$ 63.8	\$ 64.0	\$ (0.2)	0%
<b>Gross margin (%):</b>				
Fuel Specialties	33.6	29.6	+4.0	
Performance Chemicals	22.0	23.9	-1.9	
Octane Additives	54.3	60.2	-5.9	
Aggregate	32.0	31.9	+0.1	
<b>Operating expenses:</b>				
Fuel Specialties	\$ (22.1)	\$ (17.0)	\$ (5.1)	+30%
Performance Chemicals	(5.5)	(5.1)	(0.4)	+8%
Octane Additives	(1.5)	(1.8)	0.3	-17%
Pension credit/(charge)	(0.7)	0.1	(0.8)	n/a
Corporate costs	(11.5)	(8.6)	(2.9)	+34%
	\$ (41.3)	\$ (32.4)	\$ (8.9)	+27%

**Fuel Specialties**

*Net sales:* the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Americas	EMEA	ASPAC	Avtel	Total
Volume	-5	-5	-14	+144	-1
Price and product mix	+1	+7	+13	+1	+5
Exchange rates	0	+1	0	0	0
Acquisitions	+6	0	0	0	+3
	+2	+3	-1	+145	+7

Americas saw a decline in volumes, due to lower sales of high volume but low margin products, which was partially offset by an improved price and product mix. However, acquisitions in the Americas, relating to Strata, generated favorable variances compared to the same quarter in the prior year. Volumes in EMEA and ASPAC declined also primarily due to lower sales of high volume but low margin products, offset by higher sales of more added value products, resulting in an improved price and product mix in both these markets. Avtel volumes improved due to the timing of shipments to customers as opposed to any change in the long-term outlook for that market.

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*Gross margin:* the year on year increase of 4.0 percentage points primarily reflected a reduced proportion of sales of lower margin products, principally in EMEA and ASPAC, and the benefit from an increased proportion of sales from the higher margin Strata and Avtel businesses.

*Operating expenses:* the year on year increase of 30%, or \$5.1 million, was primarily due to \$1.6 million of additional costs for the Strata business; \$1.3 million of additional personnel-related compensation costs, partly due to the higher accruals for share based compensation expense driven by the quarterly rise in our stock price compared to the same quarter in the prior year; and \$1.0 million of additional research, development and new product testing costs.

**Performance Chemicals**

*Net sales:* the table below details the components which comprise the year on year change in net sales spread across the markets in which we operate:

Change (%)	Americas	EMEA	ASPAC	Total
Volume	+4	+1	+1	+3
Price and product mix	+5	-4	-4	0
Exchange rates	0	+1	0	0
	+9	-2	-3	+3

Overall volumes were higher within the Personal Care, Fragrance Ingredients and Polymers markets due to increased demand from our customers. Personal Care volumes were higher in the Americas and the region benefited from a richer price and product mix. Polymers and Fragrance Ingredients volumes were higher in EMEA but net sales were adversely impacted by a weaker price and product mix, and competitive pricing pressures, respectively. Fragrance Ingredients volumes were also higher in ASPAC but, like the EMEA region, net sales were adversely impacted by competitive pricing pressures.

*Gross margin:* the year on year decrease of 1.9 percentage points reflected the competitive pricing pressures for Fragrance Ingredients and weaker price and product mix in Polymers, partly offset by a richer price and product mix in our Personal Care market.

*Operating expenses:* the year on year increase of 8%, or \$0.4 million, was primarily in respect of \$0.3 million higher personnel-related compensation costs driven by the quarterly rise in our stock price compared to the same quarter in the prior year.

**Octane Additives**

*Net sales:* decreased by 51% with decreased volumes (down 51 percentage points), due to the timing of shipments to major customers, and an improved customer mix (up 2 percentage points), offset by reduced revenue from our environmental remediation business (down 2 percentage points). In both 2013 and 2012, sales were focused in the Middle East and Northern Africa.

*Gross margin:* decreased by 5.9 percentage points from 60.2% to 54.3% due to the benefit from the lower unit cost of inventories sold in 2012 following the increase in TEL production volumes on the fixed cost base of the TEL manufacturing facility.

*Operating expenses:* decreased by \$0.3 million from \$1.8 million to \$1.5 million.

**Other Income Statement Captions**

*Pension credit/(charge):* is non-cash, and was a \$0.7 million net charge in 2013 compared to a \$0.1 million net credit in 2012. The net charge in 2013 primarily relates to increased actuarial net losses being amortized to the income statement.



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*Corporate costs:* the year on year increase of 34%, or \$2.9 million, primarily reflected \$2.7 million higher legal and other professional expenses and \$0.3 million higher information technology service platform costs. Personnel-related compensation costs were \$1.3 million higher, primarily due to higher accruals for share based compensation expense, driven by the quarterly rise in our stock price compared to the same quarter in the prior year, offset by a \$1.3 million reduction in the charge for the long-term incentive plan which completed at the end of 2012.

*Impairment of Octane Additives segment goodwill:* was \$0.3 million in 2013 and 2012.

*Other net income/(expense):* other net income of \$1.0 million in 2013 primarily related to net foreign exchange gains on foreign currency forward exchange contracts partly offset by losses on translation of net assets denominated in non-functional currencies in our European businesses. In 2012, other net income of \$1.1 million related to gains on translation of net assets denominated in non-functional currencies in our European businesses and net foreign exchange gains on foreign currency forward exchange contracts.

*Interest expense, net:* was \$0.3 million in 2013 and 2012.

*Income taxes:* the effective tax rate was 21.4% and 23.1% in 2013 and 2012, respectively. The effective tax rate, once adjusted for non-recurring items relating to the adjustment of income tax provisions, was largely unchanged at 23.1% in 2013 compared to 22.8% in 2012. The Company believes that this adjusted effective tax rate, a non-GAAP financial measure, provides useful information to investors and may assist them in evaluating the Company's underlying performance and identifying operating trends. In addition, management uses this non-GAAP financial measure internally to evaluate the performance of the Company's operations and for planning and forecasting in subsequent periods.

<b>(in millions)</b>	<b>2013</b>	<b>2012</b>
Income before income taxes	\$ 22.9	\$ 32.0
Income taxes	\$ 4.9	\$ 7.4
Add back adjustment of income tax provisions	0.4	(0.1)
	\$ 5.3	\$ 7.3
GAAP effective tax rate	21.4%	23.1%
Adjusted effective tax rate	23.1%	22.8%

**Table of Contents*****LIQUIDITY AND FINANCIAL CONDITION*****Working Capital**

The Company believes that adjusted working capital, a non-GAAP financial measure, provides useful information to investors in evaluating the Company's underlying performance and identifying operating trends. Management uses this non-GAAP financial measure internally to allocate resources and evaluate the performance of the Company's operations. Items excluded from the adjusted working capital calculation are listed in the table below and represent factors which do not fluctuate in line with the day to day working capital needs of the business.

(in millions)	March 31, 2013	December 31, 2012
Total current assets	\$ 303.4	\$ 296.6
Total current liabilities	(128.9)	(147.3)
Working capital	174.5	149.3
Less cash and cash equivalents	(43.2)	(22.4)
Less short-term investments	(5.0)	(5.1)
Less current portion of deferred tax assets	(11.3)	(11.0)
Add back accrued income taxes	0.9	3.2
Add back current portion of long-term debt	5.0	5.0
Add back current portion of plant closure provisions	4.2	5.1
Add back current portion of unrecognized tax benefits	2.4	3.0
Add back current portion of deferred tax liabilities	0.0	0.2
Add back current portion of deferred income	0.1	1.4
Adjusted working capital	\$ 127.6	\$ 128.7

In the first three months of 2013 our adjusted working capital (defined by the Company as trade and other accounts receivable, inventories, prepaid expenses, accounts payable and accrued liabilities rather than total current assets less total current liabilities) decreased by \$1.1 million.

The \$18.2 million decrease in trade and other accounts receivable was predominantly in our Fuel Specialties and Octane Additives segments. Our Fuel Specialties first quarter sales decreased 10%, or \$15.0 million, compared to the fourth quarter of 2012 and the corresponding days sales outstanding improved from 44 days to 42 days. Days sales outstanding in our Performance Chemicals segment remained unchanged at 43 days quarter on quarter. Trade receivables in our Octane Additives segment are primarily driven by the timing of shipments to major customers, and the associated sales terms of those shipments, of which there was a significant shipment at the end of the fourth quarter of 2012 which was not the case for the end of the first quarter of 2013.

The \$3.5 million increase in inventories was focused in our Fuel Specialties segment following the decision to build certain product inventories of strategic importance, with days sales in inventory increasing from 69 days as at December 31, 2012 to 85 days as at March 31, 2013. This increase was offset to some extent as days sales in inventory in our Performance Chemicals segment decreased substantially over the same period from 101 days to 80 days as the relatively high year end levels of inventory were sold through.

Prepaid expenses increased \$0.5 million from \$4.1 million to \$4.6 million primarily reflecting insurance and property taxes paid in the first quarter of 2013.

The \$13.1 million decrease in accounts payable and accrued liabilities was due to reductions across all our segments primarily reflecting payments subsequent to the year end in the normal course of business in respect of external suppliers and personnel-related compensation. Creditor days reduced in our Fuel Specialties and Performance Chemicals segments from 29 days to 27 days and from 41 days to 27 days, respectively. The

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reduction in creditor days in our Performance Chemicals segment reflected a return to more normal levels after spiking at the year end in line with increased production and associated inventories in the fourth quarter of 2012.

### **Operating Cash Flows**

We generated cash from operating activities of \$17.9 million and \$18.0 million in the first quarters of 2013 and 2012, respectively. The marginal decrease in cash provided by operating activities from 2012 to 2013 of \$0.1 million reflected lower net income of \$6.6 million, offset by more stable working capital requirements. In the first quarter of 2013 our working capital requirements increased by \$2.0 million, compared to a \$9.1 million increase in the first quarter of 2012.

### **Cash**

At March 31, 2013 and December 31, 2012, we had cash and cash equivalents of \$43.2 million and \$22.4 million, respectively, of which \$39.9 million and \$17.5 million, respectively, were held by non-U.S. subsidiaries principally in the United Kingdom. The Company is in a position to control whether or not to repatriate foreign earnings and intends to reinvest earnings to fund overseas subsidiaries. We currently do not expect to make a repatriation in the foreseeable future and hence have not provided for future income taxes on the cash held by overseas subsidiaries. If circumstances were to change that would cause these earnings to be repatriated an additional U.S. tax liability could be incurred, and we continue to monitor this position.

### **Short-term investments**

At March 31, 2013 and December 31, 2012, we had short-term investments of \$5.0 million and \$5.1 million, respectively.

### **Debt**

At March 31, 2013, the Company had debt outstanding of \$27.0 million under its credit facility and a \$10.0 million promissory note. The credit facility provides for borrowings by us of up to \$100.0 million until it expires on December 14, 2016 and may be drawn down in full in the U.S..

## **Item 3 Quantitative and Qualitative Disclosures About Market Risk**

The Company uses floating rate debt to finance its global operations. The Company is subject to business risks inherent in non-U.S. activities, including political and economic uncertainty, import and export limitations, and market risk related to changes in interest rates and foreign currency exchange rates. The political and economic risks are mitigated by the stability of the countries in which the Company's largest operations are located. Credit limits, ongoing credit evaluation and account monitoring procedures are used to minimize bad debt risk. Collateral is not generally required.

The Company uses derivatives, including interest rate swaps, commodity swaps and foreign currency forward exchange contracts, in the normal course of business to manage market risks. The derivatives used in hedging activities are considered risk management tools and are not used for trading purposes. In addition, the Company enters into derivative instruments with a diversified group of major financial institutions in order to manage the exposure to non-performance of such instruments. The Company's objective in managing the exposure to changes in interest rates is to limit the impact of such changes on earnings and cash flows and to lower overall borrowing costs. The Company's objective in managing the exposure to changes in foreign currency exchange rates is to reduce volatility on earnings and cash flows associated with such changes.

The Company offers fixed prices for some long-term sales contracts. As manufacturing and raw material costs are subject to variability the Company uses commodity swaps to hedge the cost of some raw materials thus

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reducing volatility on earnings and cash flows. The derivatives are considered risk management tools and are not used for trading purposes. The Company's objective is to manage its exposure to fluctuating costs of raw materials.

The Company's exposure to market risk has been discussed in the Company's 2012 Annual Report on Form 10-K and there have been no significant changes since that time.

### **Item 4      Controls and Procedures Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report the Company carried out an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended).

Based upon this evaluation of disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2013.

### **Changes in Internal Controls over Financial Reporting**

The Company is continuously seeking to improve the efficiency and effectiveness of its operations and of its internal controls. This is intended to result in refinements to processes throughout the Company. However, there has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1      Legal Proceedings**

While we are involved from time to time in claims and legal proceedings that result from, and are incidental to, the conduct of our business including business and commercial litigation, employee and product liability claims, there are no other material pending legal proceedings to which the Company or any of its subsidiaries is a party, or of which any of their property is subject. It is possible, however, that an adverse resolution of an unexpectedly large number of such individual claims or proceedings could in the aggregate have a material adverse effect on results of operations for a particular year or quarter.

### **Item 1A    Risk Factors**

Information regarding risk factors appears in Item 1A of the Company's 2012 Annual Report on Form 10-K and, in management's view, there have been no material changes in the risk factors facing the Company since that time.

### **Item 2      Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3      Defaults Upon Senior Securities**

None.



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**Item 4 Mine Safety Disclosures**

Not applicable.

**Item 5 Other Information**

None.

**Item 6 Exhibits**

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 XBRL Instance Document and Related Items.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 7, 2013

By

/s/ PATRICK S. WILLIAMS  
**Patrick S. Williams**  
**President and Chief Executive Officer**

Date: May 7, 2013

By

/s/ IAN P. CLEMINSON  
**Ian P. Cleminson**  
**Executive Vice President and Chief Financial Officer**